



TRUenergy Pty Ltd
ABN 99 086 014 968

Level 33, 385 Bourke Street
Melbourne Victoria 3000
Telephone +61 3 8628 1000
Facsimile +61 3 8628 1050

enq@truenergy.com.au
www.truenergy.com.au

23 January 2012

Solar feed-in tariffs
Independent Pricing and Regulatory Tribunal of NSW (IPART)
PO Box Q290
QVB Post Office NSW 1230

ipart@ipart.nsw.gov.au

Dear IPART,

RE: Solar feed-in tariffs Draft Report

TRUenergy welcomes this opportunity to provide comments on "Solar feed-in tariffs (FiTs): Setting a fair and reasonable value for electricity generated by small-scale solar PV units in NSW" Draft Report of November 2011.

TRUenergy broadly supports the approach IPART has taken in the Draft Report, in particular the decision to publicise a benchmark range rather than mandate a particular FiT. Such an approach will ensure the cost and complexity of regulation is kept to an absolute minimum, while maintaining good customer outcomes, noting that the Terms of Reference (ToR) require the outcome to be "administratively simple and must take into account the impact on business operations of administering such pricing."¹

Any suggestion that a benchmark range will not deliver good customer outcomes is contradicted by recent events. The release of the Draft Report led to significant media coverage, including the NSW Energy Minister publicising that he has written to energy retailers encouraging them to adopt the Draft Report's FiT range. Any customer considering installing solar panels is now likely to be aware of the Draft Report's range and hence could easily compare it to solar FiT offers received from retailers. We believe it is the ongoing role of government to educate prospective solar customers about the competitive retail market and the potentially varying solar offers available.

As the Draft Report outlines, there is significant regulatory risk in setting a mandatory solar FiT and in particular if the feed-in tariff is set too high then solar customers will become unprofitable, meaning retailers with no obligation to supply may have an incentive to avoid doing so, effectively removing competition for this market segment.² The ToR require that the outcome "should operate in such a way as to support a competitive electricity market in NSW."³ Setting a benchmark range is consistent with this.

TRUenergy provides the following comments on each of the key topics in the Draft Report.

Value of PV exports - estimating the financial gain to the retailer

TRUenergy believes that financial gain to the retailer approach is the most appropriate approach to deriving the benchmark FiT in accordance with the ToR. The approach outlined by IPART is generally

¹ IPART, "Solar feed-in tariffs: Setting a fair and reasonable value for electricity generated by small-scale solar PV units in NSW – Issues Paper" August 2011, page 51

² IPART, "Solar feed-in tariffs: Setting a fair and reasonable value for electricity generated by small-scale solar PV units in NSW – Draft Report" November 2011, page 4

³ IPART, "Solar feed-in tariffs: Setting a fair and reasonable value for electricity generated by small-scale solar PV units in NSW – Issues Paper" August 2011, page 51

logical with the exception of the revenue calculation. In their composition, retail costs, retail margin, network costs and green scheme costs are not avoided, diminished or deferred as a result of embedded generation and therefore certainly should not be considered the financial gain of the retailer.

The Draft Report defines the revenue earned by the retailer as the "retail price paid by customer"⁴ however, which price is unclear. The Draft Report uses the pricing arrangements for PV customers, which means a time-of-use price for most EnergyAustralia PV customers. However the revenue from PV exports comes from the exported energy being on-sold to other customers. PV exports are unlikely to be on-sold to other PV customers as the exports would generally be simultaneous. Therefore, it would be much more appropriate to use a domestic all time tariff for this analysis, not time-of-use.

If this adjustment is made, it is likely that the resultant financial gains will be very similar for the three standard retailers. Given this, TRUenergy recommends a simple statewide benchmark FIT be published.

Another concern with the application of the financial gain approach is the retail costs used. Effectively the Draft Report's approach assumes that the cost to serve PV customers is the same as for all other customers. Whilst difficult to quantify, the additional complexity of quoting, tariff changes and ongoing meter data management and billing costs for solar customers means there is no doubt that the cost to serve a PV customer is materially higher than a non-solar connection. The financial benefit to retailers will be overstated if this is not accounted for in some way.

Value of PV exports - estimating the wholesale market value

The approach outlined in the Draft Report to value PV exports relies on the assumption that "PV customers are like the large-scale generators who sell electricity to energy retailers on the NEM."⁵ However for most solar customers this assumption does not hold as they are not settled on half-hourly interval data. Therefore tracking the half-hourly NEM spot prices is not appropriate as the solar energy exported is effectively aggregated and then valued using an inverse Net System Load Profile (NSLP). This issue was identified and analysed in some detail by ACIL Tasman in a recent report they prepared for ESCOSA.⁶ In terms of the actual wholesale market value of generation, the result will depend on metering and settlement. Given this, there should not be much reliance placed on this approach at this time.

TRUenergy agrees that 10/11 was an abnormal year. The wholesale market price can vary significantly year on year, in particular the number and timing of high price periods. A larger study with a longer data analysis period, rather than a one year calculation, would provide more robust outcomes.

Merit order effect

At the public forum held by IPART on 12 December 2011 some stakeholders suggested that the FIT should include a premium to account for the merit order effect (that new generation displaces the most costly generator, thereby reducing the average wholesale price). While the merit order effect is undoubtedly real, we concur with the Grattan Institute who believe that the "price paid for household solar should not attempt to account for the merit order effect."⁷ All new generation will have a similar merit order effect and this leads to lower wholesale prices which all customers benefit from. There is no logical reason why small scale solar generators should be compensated for their merit order effect when no other generator is.

At the public forum it was claimed that because regulated tariffs are currently set on a Long Run Marginal Cost (LRMC) basis, the merit order effect is "not necessarily being passed on across the

⁴ IPART, "Solar feed-in tariffs: Setting a fair and reasonable value for electricity generated by small-scale solar PV units in NSW – Draft Report" November 2011, page 44

⁵ IPART, "Solar feed-in tariffs: Setting a fair and reasonable value for electricity generated by small-scale solar PV units in NSW – Draft Report" November 2011, page 44

⁶ ACIL Tasman, *The fair and reasonable value of exported PV output: A report prepared for ESCOSA*, October 2011, page iv

⁷ Morrow, H, "The right way to value solar" *Climate Spectator*, 21 December 2011

board to all customers.”⁸ Such an outcome could only occur for customers on regulated tariffs and only while LRMC sets the wholesale price. Further, the mechanics of the “financial gain to retailer” approach mean that the resultant gain to the retailer includes the regulated energy purchase cost. This is currently set using LRMC, which for the 11/12 review was higher than the market based energy purchase cost. It would be entirely inappropriate to add a market-based merit order effect on top of the LRMC amount which is not market-based and higher than the underlying market-based outcome.

Potential network benefits from solar PV generation

As we have noted previously, solar could have network benefits. However, if these exist they should be identified, valued and translated into specific tariffs or other benefits by the networks and their regulator. Any attempt to include in a retailer-funded solar feed-in tariff benefits that accrue to the networks will result in increased costs for the standard retailers, which is likely to lead to higher electricity charges for all users, in breach of the ToR.

Form of Regulation

As noted above, TRUenergy supports the approach of IPART calculating and publishing a simple, statewide benchmark solar price, being a fair and reasonable value of solar generation. This should be updated annually as estimates of the value of wholesale energy purchases are updated. This will provide a useful guide to new solar customers to test offers received against the independently calculated benchmark, but would not force retailers to offer a particular rate if they believe it to overestimate the fair value. It would also facilitate ongoing product innovation by retailers to deliver more competitive solar offers, rather than simply complying with a regulated rate.

The Draft Report discusses the option of requiring only Standard Retailers to offer a FiT. TRUenergy would question if there is any need for any obligation to offer a FiT. Is there a market failure that necessitates regulatory intervention? The retail electricity market is currently determining that the fair value of solar generation is in the 6-8 cent range and there is no evidence that customers are having problems accessing such offers. In this circumstance there is no need for an obligation to offer a FiT.

At the public forum it was suggested that customers would value the surety of having an obligation on Standard Retailers to offer a solar FiT to customers on regulated tariffs. However the ToR require that the outcome “should operate in such a way as to support a competitive electricity market in NSW.”⁹ Also the ToR for the 2010-13 Regulated Pricing period require that “IPART should ensure its determination is consistent with the Government’s policy aim of reducing customers’ reliance on regulated prices.”¹⁰ It would seem inappropriate for this solar FiT review to therefore impose a requirement only on Standard Retailers in order to encourage reliance on regulated prices.

Retailer contribution to the Solar Bonus Scheme (SBS)

The Draft Report proposes that retailers be required to contribute 7.5 c/kWh towards the cost of the SBS. TRUenergy is concerned that this amount may overstate the real benefit to the retailers. As outlined above, the financial gain to retailers is overstated due to the use of time-of-use tariffs in the calculation for EnergyAustralia customers.

IPART has set the retailer SBS contribution below the financial gain to the retailer to reflect the fact that the costs and revenues for customers on market contracts will differ from those on regulated rates. This is sensible and IPART should make a further adjustment to reflect the higher costs to serve that solar customers impose upon retailers, as outlined above.

The Draft Report notes that “if the contribution rate is set too high, then second tier retailers will either tailor products with higher costs to SBS customers to (for example, not offer or offer

⁸ IPART, “Review of Solar feed-in tariffs: Public forum transcript” 12 December 2011, page 25

⁹ IPART, “Solar feed-in tariffs: Setting a fair and reasonable value for electricity generated by small-scale solar PV units in NSW – Issues Paper” August 2011, page 51

¹⁰ IPART, “Review of regulated retail tariffs and charges for electricity 2010-2013 – Electricity Final Report” March 2010, page 200

lower discounts in the market) or will avoid serving these customers.”¹¹ In SA the regulator has also noted the potential for “a reduced incentive to compete for customers with PV generation units” due to cost concerns and also that there are “reports that this may already be happening in the market.”¹²

The Draft Report notes that IPART will provide a Fact Sheet explaining the rationale for the SBS retailer contribution that retailers will be able to use in communicating with customers. This is appropriate but of itself not sufficient. To ensure this change does not lead to customer problems the NSW government must actively help to increase awareness and understanding of the changes and in particular why the 6-8 cent premiums currently paid on top of the SBS rates will disappear.

The exact mechanism for giving effect to the retailer SBS contribution has not been determined. It must be simple, practical and effective. A complex arrangement is likely to be costly to implement, contrary to the ToR. A poorly designed arrangement may lead to the administration costs for retailers and government being a large percentage of the underlying payments, as was the case with the Queensland Community Ambulance Levy. In such a situation retailers would require that their SBS contribution be reduced to cover the extra administration costs incurred.

Of particular concern is how the retailer SBS contribution might operate in the 2011/12 year. Currently there is not even a draft mechanism available and IPART’s recommended retailer contribution rate will not be available until April. Given the retailer contribution is likely to change again on 1 July 2012, TRUenergy recommends that the best customer outcome would be to start the mandatory retailer SBS contribution only from 1 July 2012. The costs of trying to rush through the process establishment and then going through a re-price almost immediately are likely to outweigh the benefits of an extra two months of retailer contribution.

Conclusion

TRUenergy agrees that there is no need for a mandated FiT for solar customers as the costs of this would outweigh the benefits. In terms of the SBS, TRUenergy recommends that if a mandated retailer contribution is to be set that it is implemented in a feasible manner so that customers are not disadvantaged.

TRUenergy supports IPART’s proposal to publish fact sheets and other educational material and strongly encourages the NSW government to play an active role in public education about solar generally and the changes that will result from this review.

Should you wish to discuss any of the issues raised in this submission please feel free to call me on (03) 8628 1120.

Yours sincerely,



Andrew Dillon
Regulatory Pricing Manager

¹¹ IPART, “Solar feed-in tariffs: Setting a fair and reasonable value for electricity generated by small-scale solar PV units in NSW – Draft Report” November 2011, page 44

¹² ESCOSA, *Proposed Amendments to the South Australian Photovoltaic Feed-in Scheme - Advice to the Treasurer*, June 2009, page 22